

**Briefing to the Council on the audit report of
the Impendle Municipality for the 2009–2010
Financial Year**

20 January 2011



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1. INTRODUCTION

Mr SPEAKER, THE HONOURABLE MAYOR, COUNCILLORS, OFFICIALS AND OTHER GUESTS:

Good morning from the AGSA in KwaZulu-Natal and greetings from the Auditor-General, Mr Terence Nombembe. Thank you for the invitation to attend this meeting of council and the opportunity to address the honourable mayor of this council on the audit report for the 2009/10 financial year.

The Auditor-General has a constitutional mandate, and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our constitutional democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence." In this regard I want to lift out four key messages that underpin this reputation promise as follows:

- 1) *Constitutional mandate and is the supreme audit institution of South Africa.* The AG of South Africa is founded in the Constitution of South Africa which defines its reason for existence as "a state institution that supports democracy". As such the AGSA is absolute independent and subject only to the Constitution and the law which require the AGSA to remain impartial and to be able to exercise its powers and perform its functions without fear, favour or prejudice.
- 2) *Strengthen our constitutional democracy.* The AG of South Africa exists to strengthen our country's democracy by contributing to the quality of life and well-being of South Africans through enabling oversight, accountability and governance in the public sector. The AGSA performs independent audits to assess the executive government's compliance with the applicable laws and its use of public resources, which ultimately affect the public sector's ability to effectively deliver public services and which therefore impacts on the stability and strength of South Africa's constitutional democracy.
- 3) *Enabling oversight, accountability and governance in the public sector through auditing.* The AG of South Africa enable accountability and good governance in the public sector by helping the legislature and any other relevant authority, as the representatives of the people of South Africa to oversee the executive government and public entities. To help the legislative authority to hold the executive government and public entities accountable for its use of public resources and its adherence to governance issues there is reliance on the AG to provide quality audits and to give assurance and objective, independent information on how South Africa's public resources are used and governance principles adhere to.
- 4) *Building public confidence.* The AG of South Africa has and maintains absolute independence as is prescribed in the Constitution and the Public Audit Act. The AG function is protected, to enable it to audit and report on the public sector without fear, favour or prejudice. The AG of South Africa work on making audit reports more relevant, so that as wide a range of stakeholders can use its reports to understand how effectively South Africa's public resources are being used. The AG of South Africa strives to build public confidence in what is delivered for the benefit of the public sector and in the democracy of our country.

In terms of paragraph 2 of my audit report the accounting officer is responsible for the preparation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP), as set out in accounting policy note 1 and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:



- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

In terms of paragraph 3 of my audit report my responsibility is to express an opinion on these financial statements based on my audit, as required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA,

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the:

- appropriateness of accounting policies used
- reasonableness of accounting estimates made by management
- overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

The purpose of this briefing is to facilitate public accountability by bringing to the attention of the Council matters arising from prior financial years and the regularity audit outcomes for the 2009-10 financial year.

2. HISTORICAL BACKGROUND

Impendle is situated on the south western boundary of the uMgungundlovu District, and shares a boundary with the Sisonke District to the south, and the KwaSani Local Municipality which includes such towns as Underberg and Himeville. To the north is the uMngeni Local Municipality which is closely tied to the Impendle Municipality in terms of agriculture and potential tourism (Midlands Meander), and to the east The Msunduzi Local Municipality which is the capital of the province and economic hub of the District. To the west are District Management Areas of the Drakensberg that fall under the Transfrontier Development Initiative related to the World Heritage Site.

3. STATUS ON THE TABLING OF ANNUAL REPORTS IN TERMS OF SECTION 121 OF THE MUNICIPAL FINANCE MANAGEMENT ACT, 2003

2007/2008: 26 March 2009
2008/2009: 22 January 2010
2009/2010: To be tabled on 20 January 2011



4. AUDIT OPINIONS

The audit opinions used by the Auditor General of South Africa in terms of the International Standards on Auditing are as follows:

Adverse – Represents a disagreement with management which was pervasive and fundamental. (ie The financial statements are not fairly presented)

Disclaimer – This is where the auditor experiences a limitation of scope on his/her work and cannot express an opinion on the fair presentation of the financial statements.

Qualified – This results from a material misstatement which is not pervasive and fundamental

Financially unqualified with other matters – the financial statements are fairly presented. However the auditor wishes to report on other matters not impacting on his opinion but forming part of our audit mandate. (eg governance)

Unqualified – The financial statements are fairly presented and there are no other matters to report on.

The audit opinions expressed on the financial statements of the Impendle Municipality over the past three years are as follows:

2007/2008: Qualified with other matters

2008/2009: Financially unqualified with other matters

2009/2010: Financially unqualified with other matters

5. REPORT OF THE AUDIT COMMITTEE

We have not been presented with this report.

6. CURRENT YEARS AUDIT REPORT

The 2009/10 audit report was unqualified with the following other matters:

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Predetermined objectives

Non-compliance with regulatory and reporting requirements

Lack of adoption or implementation of a performance management system

1. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001



Existence and functioning of a performance audit committee

2. The audit committee functioning as the performance audit committee did not in accordance with section 14(4) of the Municipal Planning and Performance Management Regulations, 2001:-
 - meet at least twice during the financial year
 - review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
 - review the municipality's performance management system and make recommendations in this regard to the council of the municipality
 - submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

Internal auditing of performance measurements

3. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and/or did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by section 45(a) of the MSA.

Reliability of reported performance information

4. The following criteria were used to assess the reliability of the planned and reported performance:
 - Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
 - Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
 - Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relates to the above criteria:

Reported indicators/targets not reliable as no supporting information was provided

5. The following selected programmes/objectives the validity, accuracy and completeness of 100% of the reported indicators/targets could not be established as the relevant source documentation could not be provided for audit purposes.
 - To Contribute towards improvement of universal access to basic services by 2017
 - To ensure sustainable waste management in ILM
 - To ensure proper management of cemeteries

Compliance with laws and regulations

Municipal Finance Management Act

The accounting officer did not adhere to his statutory responsibilities

1. Contrary to the requirements of section 62(1)(c)(i) of the MFMA, The accounting officer did not take



reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. A backup policy and disaster recovery plan were not implemented

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters reported below are limited to the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

The accounting officer does not exercise oversight responsibility over performance reporting, compliance with laws and regulations and internal control. Actions are not taken to address risks relating to the achievement of complete and accurate performance reporting. Control weaknesses are not analysed and appropriate follow-up actions are not taken that address risks relating to the achievement of performance reporting objectives.

Financial and performance management

Systems are not appropriate to facilitate the preparation of quality performance reports. Adequate supporting documentation relating to the audit on pre-determined objectives were not made available for audit purposes.

Governance

Internal controls are not selected and developed to prevent, detect and correct material misstatements in reporting on predetermined objectives. Management does not assess the likelihood of risks in ensuring that planned and reported targets are supported by adequate documentation. A risk strategy/action plan was not determined to manage identified risks relating to predetermined objectives.

8. CONCLUDING REMARKS

In conclusion, I want to highlight the following as key consideration pointers that require this council's attention in respect of achieving the most preferred position also known as an unqualified opinion with no findings on predetermined objectives and compliance with laws and regulations which I mentioned earlier and in support of the Department of Cooperative Governance and Traditional Affairs' actions towards clean audit 2014:

- a) **Financial and performance management** – In this regard we are pointing at the municipality having adequate financial and performance management systems that will produce quality and reliable monthly financial statements and performance information. This information must be supported by proper recordkeeping system that will allow immediate access to adequate supporting documents that is properly filed and securely kept.
- b) **Governance** – As an independent structure that provides the required technical skills and competence to address areas of:
 - Focused risk identification and management,
 - Proper fraud prevention and detection,



- Effective internal audits that consistently checks the adequacy and implementation of internal controls as well as the management information that flows from the financial and performance management systems, and
- An independent audit committee that serves to promote accountability and service delivery; enhances communication between management and council and facilitate communication between internal and external audit functions to ensure effectiveness and efficiencies.

c) **Leadership** – To this end, we are pointing at close a full circle by pointing to all levels of leadership that is charged with an oversight responsibility and thereby setting the “tone at the top”, i.e an environment that is conducive to good accountability and service delivery through a positive attitude, integrity above reproach, competence for the task at hand and ethical behaviour that will stand the test of times. Persons that will take decisive action to:-

- mitigate emerging risks;
- implement timely corrective actions; and
- immediately address non performance.

I humbly request the Mayor in cooperation with the accounting officer to table in this council an appropriate action plan with measurable milestones by which to address all audit findings raised for this municipality where appropriate. To engage the governance structures to oversee and report quarterly the assessed progress in respect of the measurable milestones of that plan, and to instil such corrective action that will ensure a clean audit well before 2014. This I believe will go a long way to enhance the quality of service delivery, build public confidence in what is delivered, strengthening our democracy and ensuring a better life for all as proudly South Africans.

Mr Speaker, finally please allow me to take this opportunity to say “well done” to the management on the achievements thus far and please walk that extra mile to achieve a clean audit report.

8. APPRECIATION

I wish to thank the management and staff of the municipality for the assistance rendered during the 2009-10 audit.

Thank you

Ratish →



**cogta**

Department:
Co-operative Governance and Traditional Affairs
PROVINCE OF KWAZULU-NATAL

The Municipal Manager

Enquiries: Mrs J Moodley

Impendle Local Municipality
P O Box 512
Impendle
3227

09 February 2011

Dear Sir/Madam

ANALYSIS OF THE REPORTING AND DISCLOSURE REQUIREMENTS IN THE ANNUAL REPORT

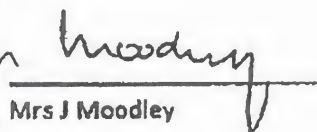
Please be advised that the Department of Co-operative Governance and Traditional Affairs has analysed your 2009/annual report in terms of the reporting and disclosure requirements as set out in Chapter 12 of the Municipal Finance Management Act (No.56 of 2003), in particular sections 121(3) and (4), 123, 124 and 125, and section 46 of the Local Government Municipal Systems Act (No. 32 of 2000).

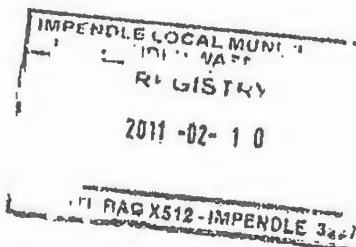
The analysis highlights that the following items are not included in your annual report:

1. The performance report does not include a comparison of the current and prior year performance
2. The annual report does not contain responses to the audit report on the Annual Financial Statements

In terms of section 129 of the Municipal Finance Management Act (No.56 of 2003) your municipal council is required consider the annual report of the municipality and its municipal entity/s and adopt an oversight report on the annual report. Kindly ensure that the oversight report, adopted by your council, addresses the deficiencies highlighted above.

Yours Faithfully


Mrs J Moodley



**MINUTES OF THE OVERSIGHT COMMITTEE MEETING HELD AT 14H00 ON FRIDAY 11
MARCH 2011 AT THE GOLDEN HORSE CASINO PIETERMARITZBUG**

PRESENT

Cllr KM Dlamini Chairperson
Cllr Cekwane
Cllr BS Nxele

OFFICIALS

BS Duma	Municipal Manager
Ms P Gcaba	Committee Officer

1. NOTICE OF THE MEETING

The Municipal Manager read the notice of the meeting.

2. APOLOGIES AND APPLICATIONS FOR LEAVE OF ABSENCE

All members were present.

3. CONFIRMATION OF MINUTES OF THE PREVIOUS MEETINGS

None

4. ANNOUNCEMENT BY THE CHAIRPERSON

The Chairperson enquired from the Municipal Manager if there were any announcements.

None

5. DECLARATION OF PECUNIARY OR OTHER INTERESTS

None

6. DEPUTATIONS

None

7. REPORTS

Signed:.....Cllr KM Dlamini

Date:.....

a. 2009/2010 Annual Report

The MM explained that the Oversight committee was responsible for making a detailed analysis and review of the Annual Report, make comments add whatever needs to be added and then formulate recommendations which would be taken to Council for adoption. He further explained that he was present merely to answer questions and give clarity where necessary; the questions and answer would be recorded in the minutes.

The MM reported that the Annual Report was advertised, however, there were no comments received from the public. The Department of Corporative Governance and Traditional Affairs (Cogta) made the following comments:

- The Performance Report was not compared to the previous year's report.
- The Annual Report did not include responses to queries raised by the A-G. (The MM explained that the responses would be included in the report as they are available.

The Chairperson led the discussion, went through the Annual Report page by page and invited comments from the members.

Comments

Cllr Cekwane inquired about the Tourism projects. He reported that a consultant was appointed to do research on the feasibility of establishing a museum but it seemed that nothing happened.

The Municipal Manager explained that the purpose of the Oversight Committee is to verify the information given in the Report. He further explained that research should give guidance and that the results thereof should be used to seek assistance in order to implement the projects.

With regards to the Staff compliment, Cllr Cekwane inquired if the Municipality was within the legislative requirements in respect of race.

The Municipal Manager confirmed and reported that the population of Impendle was made up of 99% blacks. He reported that there was an imbalance with regards to the ratio of females in management positions.

Cllr Cekwane inquired if the Audit Committee that was appointed in 2008 was still in existence.

Signed:.....Cllr KM Dlamini

Date:.....

The Municipal Manager explained that the Audit Committee was in existence and that the Audit Committee was a shared service with other municipalities within the UMgungundlovu District and that it was cost effective. The MM reported that the Audit Committee had planned to set up a meeting with HW the Mayor and councillors to discuss Performance.

With regards to the A-G report the MM explained nothing could be changed in the report as it had been presented to Council and signed.

Cllr Cekwane inquired why some managers allow staff to attend training that was not aligned to the Workplace Skills Plan.

The Municipal Manager explained that the matter had been discussed with the managers and perhaps it would stop. The MM further explained that for irrelevant training there was no refund from SETA.

Cllr Cekwane pointed out that although the MIG allocation was not spent because of staff shortage it would be advisable for the municipality to spend the allocated funds.

Way Forward

The Municipal Manager reported that the minutes, the comments from the Cogta and advertisements would be made into a report that would be submitted to Council for approval. Once approved it would then be sent to the A-G, Cogta and the Legislature by 07 April 2011 and then be advertised.

8. NOTICES OF MOTION

None

9. QUESTIONS FOR WHICH NOTICE HAS BEEN GIVEN

None

10. GENERAL MATTERS OF AN URGENT NATURE

None

11. CLOSURE

The Chairperson terminated the meeting at 15h20

Signed:.....Cllr KM Dlamini

Date:.....



UMKHANDLU WASEKHAYA IMPENDLE IMPENDLE LOCAL MUNICIPALITY

TABLING OF THE 2009/2010 ANNUAL REPORT (Incorporating the Auditor General's Report for the 2009/2010 financial year)

NOTICE IS HEREBY GIVEN that Her Worship the Mayor Cllr S.M. Makaya will, in terms of sec. 127(2) of the Municipal Finance Management Act 56 of 2003 (MFMA), table in the Impendle Municipal Council at its meeting to be held on Thursday, 20 January 2011 at 10h00 in the Council Chamber on 21 Mafaheni Street, Impendle, the Municipality's 2009/2010 Annual Report which incorporates the 2009/2010 Audit Report. Once tabled the Annual Report will in terms of sec. 127(5) of the MFMA and sec 21A of the Municipal Systems Act 32 of 2000 (MSA), be made available to the public (as of Monday, 24 January 2011) for inspection at the Impendle Library, Impendle Municipality Reception (21 Mafaheni Street, Impendle) and the Municipal Website (<http://impendle.local.gov.za>). The public is therefore invited to make written representations or comments in connection with the annual report to the Municipal Manager, Private Bag 7 612, Impendle 3227 or by email to phindi.gcaba@lmet.org.za or by fax to 033 996 0852. Any member of the public wishing to make representations or comments but cannot write, is invited to come to the office of the Municipality where Ms Phindi Gcaba or Ms Penelope Mavara will assist him/her transcribe their representations/comments. The closing date for the submission of such representations or comments is close of business (16h00) on Friday, 18 February 2011.

PUBLIC NOTICE CALENDAR OF COUNCIL MEETINGS FOR 2011

Notice is hereby given that the Impendle Municipal Council will meet on the following dates during 2011. All council meetings are held in the Council Chamber on 21 Mafaheni Street, Impendle at 10h00 (unless otherwise advised).

MONTH	DATE	MONTH	DATE
January	20	July	28
January	27	August	25
February	24	September	25
March	31	October	27
April	28	November	24
May	26	December	8
June	30		

While council meetings are open to the public, it is requested that members of the public wishing to attend council meetings should make prior arrangements with Ms Phindi Gcaba on phindi.gcaba@lmet.org.za or 033 996 0771 in order to ensure that sufficient space is allocated for this purpose.

B.S. DUMA
MUNICIPAL MANAGER

13/01/2011 WITNES